

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Franklin Township	County Houghton
Fiscal Year End March 31, 2007	Opinion Date September 19, 2007	Date Audit Report Submitted to State September 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

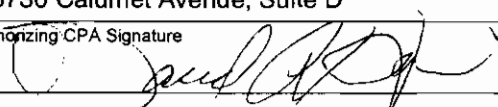
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) David A. Heinonen, CPA, PC		Telephone Number (906) 337-2910	
Street Address 56730 Calumet Avenue, Suite D		City Calumet	State MI
Authorizing CPA Signature 		Printed Name David A. Heinonen	Zip 49913
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July 31, 2007

Board Members
Franklin Township
Hancock, MI 49930

In planning and performing our audit of the financial statements of Franklin Township, Michigan, for the year ended March 31, 2007 we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide any assurance on the internal control. We noted certain matters involving internal control and its operation and other items that came to our attention in the normal conduct of our audit that are presented to assist in improving accounting procedures and controls.

Internal control

The size of the Township's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board should remain involved in the financial affairs of the Township to provide oversight and independent review functions.

Compliance

Actual activity level expenditures exceeded amounts authorized in the final amended budgets of the Township's General Fund, as follows:

<u>Fund/Activity</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over Expenditure</u>
General Fund	\$ 0	\$ 108	(\$ 108)

P.A. 621 of 1978, Section 18 (1), as amended, provides the local unit shall not incur expenditures in excess of the amount appropriated. It is recommended that the Township fully comply with all provisions of the Act.

This report is intended for the information and use of the Township Board membership and applicable Federal and State agencies. We will be pleased to discuss any of comments with you at your convenience.

Sincerely,

David A Heinonen, CPA, PC

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Independent Auditor's Report

Board Members
Franklin Township
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin Township, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Franklin Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin Township as of March 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated September 19, 2007 on our consideration of the Franklin Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards**, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin Township's basic financial statements. The accompanying other supplemental information listed in the cable contents is presented for purposes of additional analysis is not a required part of the basic financial statements. This other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

David A. Heinonen, CPA, PC

Laurium, Michigan
September 19, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Franklin Township (Township) financial performance provides an overview of the financial activities for the year ended March 31, 2007. Please read it in conjunction with the Township's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The Township's net assets were reported (non-audited), in the previous fiscal year, for the first time under GASB 34. Currently, comparative information will be presented in the various schedules throughout the Management Discussion and Analysis (MD&A).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9) provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances.

Report Components

This annual report consists of five parts as follows:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances.

Fund Financial Statements: Fund financial statements focus on the individual parts of the Township government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant ("major") funds. For governmental entities the statements to all the services are financing the short term as well as what remains for future spending or proprietary activities statements over short term and long-term financial information about the activities of the township right side businesses such as the sewage and water services for fiduciary activities the statements account for us it's a black township is agent and trustee for others and include the property tax funds

Notes to Financial Statements: The notes to the financial statements are integral part of the government-wide and fund financial statements and provide expanded explanation detail regarding information reported in the statements.

Required Supplementary Information: This Management Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required to be presented by the GASB. Such information provides users with additional data that supplements the "basic financial statements" which include the government-wide statements, fund financial statements, and notes to the financial statements

Other Supplementary Information: This part of the annual report includes optional financial information such as combining statements for non-major funds, which are added together and shown in the fund financial statements in a single column and a federal program section. This other supplemental financial information is provided to address certain specific needs of various users of Township's annual report.

REPORTING THE TOWNSHIP AS A WHOLE

Our analysis of the Township as a whole begins on page 8. One of the most important questions asked about the Township's finances is "Is the Township, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

REPORTING THE TOWNSHIP AS A WHOLE (continued)

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Township's net assets and changes in them. You can think of the Township's net assets—the difference between assets and liabilities – as one way to measure the Township's financial health, or *financial position*. Over time, increases or decreases in the Township's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the local population, and related demographics.

The Statement of Net Assets and the Statement of Activities is divided into two types of activities:

Governmental activities - Most of the Township's basic services are reported here, including the police, fire, general administration, public works and recreation. Property taxes, state statutory aid and state and federal grants finance most of these activities.

Business-type activities - The Township charges fees to its water/sewage customers to help it cover all or most of the costs these services it provides.

THE TOWNSHIP AS A WHOLE

In a condensed format, the table below provides a summary of the Township's net assets (in thousands of dollars). The Township's combined net assets at March 31, 2007 increased \$59,209 from March 31, 2006.

Table 1 - Net Assets						
	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 585.1	\$ 561.4	\$ 117.8	\$ 115.5	\$ 702.9	\$ 676.9
Noncurrent assets	711.5	676.0	1,150.9	1,188.3	1,862.4	1,864.3
Total assets	<u>1,296.6</u>	<u>1,237.4</u>	<u>1,268.7</u>	<u>1,303.8</u>	<u>2,565.3</u>	<u>2,541.2</u>
Current liabilities	56.7	0.0	203.4	204.6	260.1	204.6
Other liabilities	0.0	0.0	302.3	309.3	302.3	309.3
Total liabilities	<u>56.7</u>	<u>0.0</u>	<u>505.7</u>	<u>513.9</u>	<u>562.4</u>	<u>513.9</u>
Net Assets						
Investment in capital assets, net of related debt	711.5	676.0	674.5	704.5	1,385.9	1,380.5
Restricted net assets	0.0		30.8	29.6	30.8	29.6
Unrestricted net assets	<u>528.4</u>	<u>470.8</u>	<u>57.6</u>	<u>62.8</u>	<u>586.1</u>	<u>533.6</u>
Net Assets	<u>\$ 1,239.9</u>	<u>\$ 1,146.8</u>	<u>\$ 762.9</u>	<u>\$ 796.8</u>	<u>\$ 2,002.9</u>	<u>\$ 1,943.7</u>

Net assets of the Township are \$2,002,865, at March 31, 2007, and \$1,943,656 in 2006. Unrestricted net business assets were \$586,086, and \$533,624, respectively, and restricted net assets were \$30,847, and \$29,557 respectively. In general, the Township's unrestricted net assets are used to fund operations of the Township, and restricted assets are used for specific purposes bond principal and interest repayments, bond reserves, and water and sewer system repairs.

Table 2 - Changes in Net Assets

(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program revenues: Charges for services	\$ 34.7	\$ 25.4	\$ 45.7	\$ 45.9	\$ 80.4	\$ 71.4
Program grants and subsidies	0.0	0.0	0.0	0.0	0.0	0.0
General revenues	290.4	300.3	0.0	0.0	290.4	300.3
Unrestricted investment earnings	2.1	1.3	3.0	0.7	5.1	2.0
Other	9.0	0.0	3.6	0.0	12.6	0.0
Total revenues	<u>336.2</u>	<u>327.1</u>	<u>52.3</u>	<u>46.6</u>	<u>388.5</u>	<u>373.7</u>
Operating expenses	251.5	256.1	79.4	72.6	330.9	328.7
Loss on sale of fixed assets		0.0		0.0	0.0	0.0
Total expenses	<u>251.5</u>	<u>256.1</u>	<u>79.4</u>	<u>72.6</u>	<u>330.9</u>	<u>328.7</u>
Increase in net assets	84.7	71.0	(27.1)	(26.0)	57.6	45.0
Net assets - beginning of year	<u>1,146.8</u>	<u>1,075.9</u>	<u>796.8</u>	<u>822.8</u>	<u>1,943.7</u>	<u>1,898.7</u>
Prior period interfund adjustment	8.4		(6.8)		1.6	
Net assets - end of year	<u>\$ 1,239.9</u>	<u>\$ 1,146.8</u>	<u>\$ 762.9</u>	<u>\$ 796.8</u>	<u>\$ 2,002.8</u>	<u>\$ 1,943.7</u>

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal 2007, the Township had \$3,103,420, invested in a variety of capital assets including land, equipment and sewer/water systems as follows:

Table 3 - Capital Assets at March 31, 2007

(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 458.9	\$ 458.9	\$ 0.0	\$ 0.0	\$ 458.9	\$ 458.9
Buildings and improvements	801.0	801.0	0.0	0.0	801.0	801.0
Equipment	396.4	341.4	0.0	0.0	396.4	341.4
Water and sewer systems	0.0	0.0	1,447.1	1,447.1	1,447.1	1,447.1
Total depreciable assets cost	<u>1,197.4</u>	<u>1,142.4</u>	<u>1,447.1</u>	<u>1,447.1</u>	<u>2,644.5</u>	<u>2,589.5</u>
Total Capital Assets	<u>\$ 1,656.3</u>	<u>\$ 1,601.3</u>	<u>\$ 1,447.1</u>	<u>\$ 1,447.1</u>	<u>\$ 3,103.4</u>	<u>\$ 3,048.4</u>

Long-term Debt**Table 4 - Long-term Debt at March 31, 2007**

(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Notes/loans payable	\$ 0.0	\$ 0	\$ 11.4	\$ 11.4	\$ 11.4	\$ 11.4
Bonds payable	0.0	0.0	296.9	302.9	296.9	302.9
	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 308.3</u>	<u>\$ 314.3</u>	<u>\$ 308.3</u>	<u>\$ 314.3</u>

Long-term Debt (continued)

At year end, the township had \$308,337, in long-term debt outstanding, and \$315,337, in long-term debt last year as indicated in the above table.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township's appointed officials considered many factors when setting the budget for the fiscal year 2007 budget. In the upcoming year, we do not anticipate any significant changes in the local demographics, number of taxpayers or customers or their related consumption, or other factors that would provide any substantial change in revenues. There continues to be a variety of inflationary costs and expense issues. These and other factors were taken into consideration during the 2007 budget process.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Township's Supervisor or Treasurer in their offices during regular business hours at (906) 487-9073.

FRANKLIN TOWNSHIP
Statement of Net Assets
March 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 580,785	\$ 54,244	\$ 635,029
Accounts receivable, net		23,371	23,371
Taxes receivable	0	0	0
Interest receivable	157	654	811
Due from other funds	4,186	8,643	12,829
Restricted assets		30,847	30,847
Total Current Assets	585,129	117,759	702,887
NONCURRENT ASSETS			
Capital Assets, net of accumulated depreciation	711,482	944,850	1,656,332
Construction in progress		158,020	158,020
Total Noncurrent Assets	711,482	1,102,870	1,814,352
OTHER ASSETS			
Advances to other funds		48,045	48,045
TOTAL ASSETS	\$ 1,296,611	\$ 1,268,673	\$ 2,565,284
LIABILITIES			
Accounts payable/accruals/deferrals	\$ 0	\$ 67,297	\$ 67,297
Construction payable		124,651	124,651
Due to other funds	56,688	0	56,688
Payable from restricted assets:			
Accrued interest	0	5,446	5,446
Current maturities on revenue bonds	0	6,000	6,000
Total Current Liabilities	56,688	203,394	260,082
LONG-TERM DEBT			
Revenue bonds payable		296,900	296,900
Notes payable	0	11,437	11,437
Current maturities	0	(6,000)	(6,000)
Total Long-term Debt	0	302,337	302,337
Total Liabilities	56,688	505,731	562,419
NET ASSETS			
Investment in capital assets, net of related debt	711,482	674,450	1,385,932
Restricted net assets	0	30,847	30,847
Unrestricted net assets	528,441	57,645	586,086
NET ASSETS	\$ 1,239,923	\$ 762,942	\$ 2,002,865

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP
Statement of Activities
For the Year ended March 31, 2007

FUNCTIONS/PROGRAMS	Program Revenue				Net (Expenses) Revenues & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities							
Legislative	\$ 24,377	\$	\$	\$	\$ (24,377)	\$	\$ (24,377)
General Government	82,241				(82,241)		(82,241)
Public Safety:							
Police	0				0		0
Fire	35,528				(35,528)		(35,528)
Public Services	61,405	34,725			(26,680)		(26,680)
Other	47,862				(47,862)		(47,862)
Capital outlay	0				0		0
Interest on long-term debt	108				(108)		(108)
Total governmental activities	<u>251,521</u>	<u>34,725</u>	<u>0</u>	<u>0</u>	<u>(216,796)</u>		<u>(216,796)</u>
Business-Type Activities							
Water utility	79,377	45,671	0	0		(33,706)	(33,706)
Sewage disposal	0	0	0	0		0	0
Total business-type activities	<u>79,377</u>	<u>45,671</u>	<u>0</u>	<u>0</u>		<u>(33,706)</u>	<u>(33,706)</u>
Total primary government	<u>\$ 330,898</u>	<u>\$ 80,396</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (216,796)</u>	<u>(33,706)</u>	<u>(250,502)</u>
General Revenues:							
Property taxes					136,973		136,973
State shared revenue					97,113		97,113
Unrestricted investment earnings					2,063	3,031	5,094
Miscellaneous					56,303		56,303
Transfers					9,000	3,597	12,597
Total general revenues					<u>301,452</u>	<u>6,627</u>	<u>308,079</u>
Changes in net assets					84,656	(27,079)	57,577
Net assets, beginning					<u>1,146,845</u>	<u>796,811</u>	<u>1,943,656</u>
Prior period interfund adjustment					<u>8,422</u>	<u>(6,790)</u>	<u>1,632</u>
Net assets, ending					<u>\$ 1,239,923</u>	<u>\$ 762,942</u>	<u>\$ 2,002,865</u>

(1)

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP
Governmental Funds Balance Sheet
March 31, 2007

	<u>General Fund</u>	<u>Special Revenue</u> <u>Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 291,566	\$ 289,219	\$ 580,785
Due from other funds	4,186		4,186
Total Assets	<u>295,752</u>	<u>289,219</u>	<u>584,971</u>
LIABILITIES			
Due to other funds	56,688		56,688
FUND BALANCES			
Unrestricted	239,064	289,219	528,283
Restricted			0
Total Fund Balances	<u>239,064</u>	<u>289,219</u>	<u>528,283</u>
 Total Liabilities and Fund balances	 <u>295,752</u>	 <u>289,219</u>	 <u>584,971</u>
 Cost of Capital Assets			1,599,902
Accumulated Depreciation			(944,793)
 Long-term liabilities are not due and payable in the current period and are not reported in the funds			0
 Accrued interest payable is not included as a liability and governmental activities			(157)
 Prior period interfund balance adjustments			0
 Net Assets of Governmental Activities			 <u>\$ 1,239,923</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP

**Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year ended March 31, 2007**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Revenues			
Taxes	\$ 34,482	\$ 102,491	\$ 136,973
State aid	97,113		97,113
Charges for services	0	34,725	34,725
Interest	2,063		2,063
Other	56,303	0	56,303
Total Revenues	<u>189,961</u>	<u>137,216</u>	<u>327,178</u>
Expenditures			
Legislative	24,377		24,377
General Government	82,241		82,241
Public Safety	12,565	22,963	35,528
Public Services	61,405		61,405
Other	9,980	37,882	47,862
Capital outlay		55,000	55,000
Interest on long-term debt	108	0	108
Total Expenditures	<u>190,677</u>	<u>115,845</u>	<u>306,521</u>
Excess of revenues over(under) expenditures	<u>(715)</u>	<u>21,371</u>	<u>20,656</u>
Other financing sources (uses)			
Operating transfers in	<u>0</u>	<u>9,000</u>	<u>9,000</u>
Net Change in Fund Balance	<u>(715)</u>	<u>30,371</u>	<u>29,656</u>
Fund balance-beginning	<u>265,877</u>	<u>258,847</u>	
Fund balance-ending	<u>\$ 265,162</u>	<u>\$ 289,218</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures, in the statement activities these costs are allocated over their estimated useful lives as as depreciation:

Cost of Capital Assets	74,675
Depreciation expense	(19,518)

Accrued interest is recorded in the statement of activities when incurred, it is not reported in governmental funds until paid

(157)

Changes in Net Assets of Governmental Activities \$ 84,656

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP
Proprietary Funds Statement of Net Assets
March 31, 2007

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 54,244	\$ 0	\$ 54,244
Accounts receivable, net	23,371	0	23,371
Taxes receivable	0	0	0
Interest receivable	654	0	654
Due from other funds	0	8,643	8,643
Restricted assets	30,847	0	30,847
Total Current Assets	109,116	8,643	117,759
NONCURRENT ASSETS			
Capital Assets, net of accumulated depreciation	944,850	0	944,850
Construction in progress	0	158,020	158,020
Total Noncurrent Assets	944,850	158,020	1,102,870
OTHER ASSETS			
Advances to other funds	48,045	0	48,045
TOTAL ASSETS	1,102,010	166,663	1,268,673
LIABILITIES			
Accounts payable/accruals/deferrals	63,222	4,075	67,297
Construction payable	0	124,651	124,651
Due to other funds	0	0	0
Payable from restricted assets:			
Accrued interest	5,446	0	5,446
Current maturities on bonds	6,000	0	6,000
Total Current Liabilities	74,668	128,726	203,394
LONG-TERM DEBT			
Bonds payable	296,900	0	296,900
Notes payable	0	11,437	11,437
Current maturities	(6,000)	0	(6,000)
Total Long-term Debt	290,900	11,437	302,337
Total Liabilities	365,568	140,163	505,731
NET ASSETS			
Investment in capital assets, net of related debt	647,950	26,500	674,450
Restricted net assets	30,847	0	30,847
Unrestricted net assets	57,645	0	57,645
NET ASSETS	\$ 736,442	\$ 26,500	\$ 762,942

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP**Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets
For the Year ended March 31, 2007**

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
OPERATING REVENUES			
User fees	\$ 31,831	\$ 0	\$ 31,831
Other revenues	1,732		1,732
Property taxes	12,107		12,107
	<u>45,671</u>	<u>0</u>	<u>45,671</u>
OPERATING EXPENSES			
Wages and taxes	5,710	0	5,710
Supplies and maintenance	16,408	0	16,408
Miscellaneous	4,205	0	4,205
Depreciation and amortization expense	36,148	0	36,148
	<u>62,471</u>	<u>0</u>	<u>62,471</u>
Total Operating Expenses	<u>62,471</u>	<u>0</u>	<u>62,471</u>
Operating Income (Loss)	(16,800)	0	(16,800)
OTHER INCOME(EXPENSE)			
Interest Income	3,031	0	3,031
Transfers from other funds	3,597		3,597
Interest expense	16,906	0	16,906
Total Other Income(Expense)	<u>(10,279)</u>	<u>0</u>	<u>(10,279)</u>
Change in Net Assets	<u>(27,079)</u>	<u>0</u>	<u>(27,079)</u>
NET ASSETS - BEGINNING	770,311	26,500	796,811
Prior period payable/accrual adjustment	(6,790)		(6,790)
NET ASSETS - ENDING	<u>\$ 736,442</u>	<u>\$ 26,500</u>	<u>\$ 762,942</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP
Proprietary Funds Statement of Cash Flows
For the Year ended March 31, 2007

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 46,875	\$ 0	\$ 46,875
Cash received from grants and subsidies	3,542	0	3,542
Cash payments to suppliers for goods and services	(20,613)	0	(20,613)
Cash payments for wages and related benefits	(5,710)	0	(5,710)
Net cash from operating activities	<u>24,094</u>	<u>0</u>	<u>24,094</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid	(16,906)	0	(16,906)
Bond Principal	(6,000)	0	(6,000)
Net cash used by capital and related financing activities	<u>(22,906)</u>	<u>0</u>	<u>(22,906)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	3,031	0	3,031
Other	(827)	0	(827)
Net cash from investing activities	<u>2,204</u>	<u>0</u>	<u>2,204</u>
Net increase in cash	<u>3,391</u>	<u>0</u>	<u>3,391</u>
CASH AND EQUIVALENTS - BEGINNING OF YEAR	50,853	0	50,853
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 54,244</u>	<u>\$ 0</u>	<u>\$ 54,244</u>
INTEREST PAID IN 2006	<u>\$ 16,906</u>	<u>\$ 0</u>	<u>\$ 16,906</u>

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ (16,800)	\$ 0	\$ (16,800)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	36,148	0	36,148
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	1,525	0	1,525
Decrease (Increase) in prepaids			
Increase (Decrease) in accounts payable	2	0	2
Increase (Decrease) in accrued liabilities	3,219	0	3,219
Net cash from operating activities	<u>\$ 24,094</u>	<u>\$ 0</u>	<u>\$ 24,094</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP
Fiduciary Fund Statement of Net Assets
March 31, 2007

ASSETS

Cash	\$ <u>4,811</u>
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LIABILITIES

Due to other funds/governmental units	\$ <u>4,811</u>
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The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

Franklin Township (Township) was organized as a General Law Township and is located in Houghton County, Michigan. The Township operates under an elected Board of Trustees consisting of five members, which are the supervisor, clerk, treasurer and two trustees. The Township provides many services including law enforcement, fire protection, water supply system, waste disposal, sanitation, recreation and community enrichment.

Jointly Governed Organization

The township in conjunction with one other governmental entity created the Franklin-Quincy Township Water Authority (Authority) to provide a water supply to Township residents. The Authority's board is comprised of five members, two of which are from the Township. The Authority's board has control over its own budgeting and financing obligations. All the financial operations of the Authority are recorded in its own books and records. It is expected that the revenues generated from the water system users will be adequate to operate the water system and pay back the construction debt and interest of the Authority. Separately issued financial statements are available from the Authority.

Component Unit

In evaluating how to define the Township, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing Township, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that the Township was not a component unit of any other governmental unit, nor is any unit a component of the Township.

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During 2005, the Township adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

FRANKLIN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION – (Continued)

Government-Wide Financial Statements:

The Government-Wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from the statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include; (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets certain criteria.

The following Major funds are reported by the Township:

Governmental Funds

General Fund – The general fund is the primary operating fund Township and is always classified as a major fund. It is used to account for all activities except those legally and administratively required to be accounted for another funds.

Fire Precincts #1, #2, and #4 – These three funds are used to account for the Township monies expended to operate the fire department portion of public safety

Fire Equipment Fund – The fund is used to account for the acquisition of equipment for the fire precincts within the Township.

FRANKLIN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)

Fund Financial Statements – (Continued)

Governmental Funds – Continued)

Waste Disposal Fund – The fund is used to account for the proper treatment and disposal of waste generated within the Township.

Road Improvement Fund – The fund is used to account for the repair, maintenance, and general improvements to the roads within the Township.

Proprietary Funds

Enterprise Fund – Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on the net income measurement similar to the private sector. This fund type includes both the Water and Sewage Funds.

The Township also reports the following fund type:

Proprietary Funds

Agency Funds - This fund type is used to account for assets held by the Township in a trustee or agency capacity for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund type includes the Current and Delinquent Tax Account Funds

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on a modified accrual basis of accounting. Under the modified accrual of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

FRANKLIN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING – (Continued)

Financial Statement Amounts

Cash and Equivalents - The Township's cash and equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less, and apply to both restricted and unrestricted cash and equivalents.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Restricted Assets - Cash – Certain resources set aside for the repayment of revenue bonds and interest payments, repair, replacements and improvements are classified as restricted assets on the balance sheet because their use is limited by the applicable bond covenant, grant agreement or local ordinance.

Capital Assets – Capital Assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets include land and improvements, buildings, furniture, equipment, vehicles, and the water and sewage systems. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Interest costs incurred during construction of assets are also capitalized. Depreciation on all assets is provided on the straight-line basis over their estimated useful lives; which may range from five to forty years.

Compensated Absences – The Township has no compensated absences for which employees will be paid, such as vacation and sick leave

Long-Term Debt - In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between any reacquisition price and the net carrying value of refunded debt are capitalized over the terms of their respective bonds using a method that approximates the effective interest method.

The government fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Insurance costs are reported as expenditures.

FRANKLIN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Equity Classification - Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets. Consists of capital assets, net of accumulated depreciation.
2. Restricted net assets. Restricted net assets are those which have limited use due to third-party restrictions
3. Unrestricted net assets. All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt “.

Revenues and Expenses - Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services

Inter-fund Activity

Inter-fund activities are recorded as: loans, services provided, reimbursements or transfers. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between government or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stewardship, Compliance and Accountability:

Budgets and Budgetary Accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the various fund types as well as those prescribed or permitted by the Township, and State of Michigan Statutes. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control adopted by the Township is the activity level. The budget has been amended to reflect the ongoing changes as necessary as a management control device.

FRANKLIN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)

Budgets and Budgetary Accounting – (Continued)

Excess of expenditures over appropriations in budgeted funds during the audit period, are as follows:

	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund	\$0	\$108

Deposits

Michigan law (Act 196 PA 1997) authorizes the Township to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the Township to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an inter-local agreement under the Urban Cooperation's Act of 1967, 1967 (Ex Sess) PA 7 MCL 123.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 29.111 to 129.118.
- j. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 21, MCL 129.141. to 129.150.

Michigan Law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

FRANKLIN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

(Continued)

Deposits – (Continued)

Cash and equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Petty cash	\$ 0	\$ 0	\$ 0	\$ 0
Cash (checking and savings)	580,785	54,244	4,811	639,840
Restricted cash	0	30,847	0	30,847
	<u>\$ 580,785</u>	<u>\$ 85,091</u>	<u>\$ 4,811</u>	<u>\$ 670,687</u>

The bank balances were fully insured at March 31, 2007, between the Federal Deposit Insurance Corporation, and applicable Michigan Statutes.

NOTE B – PENSION PLAN

The Township contributes to a defined contribution pension plan in lieu of funding Social Security in accordance with IRS regulations and approval.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits of participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the Township, all officials and full and permanent part time and ploys are eligible under the plan. Contributions made by an employee or the Township vest 100% immediately. An employee that leaves employment of the Township is entitled to his or her contributions and the Townships contributions in the form of a retirement benefit that can be provided by his accrued benefit under the given annuity contract. The Township currently contributes 12% of wages paid. Participants under the plan are not required to contribute.

The Township's pension expense amounted to \$3,510, for the year ended March 31, 2007.

NOTE C – FIXED ASSETS

A summary of capital assets as of March 31, 2007 is as follows:

FRANKLIN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(Continued)

Fixed assets (continued)

	<u>Balance</u> <u>4/1/2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>3/31/2007</u>
Governmental Activities				
Land	\$ 458,875	\$ 0	\$ 0	\$ 458,875
Buildings	801,000	-	-	801,000
Equipment	<u>341,400</u>	<u>55,000</u>	<u>0</u>	<u>396,400</u>
	1,601,275	55,000	-	1,656,275
Accumulated depreciation	<u>(925,275)</u>	<u>(19,518)</u>	<u>0</u>	<u>(944,793)</u>
Net Capital Assets	<u>\$ 676,000</u>	<u>\$ 35,482</u>	<u>\$ -</u>	<u>\$ 711,482</u>
Business-Type Activities				
Land	\$ 0	\$ 0	\$ 0	\$ 0
Buildings	0	0	0	0
Equipment	<u>1,447,145</u>	<u>0</u>	<u>0</u>	<u>1,447,145</u>
	1,447,145	0	0	1,447,145
Accumulated depreciation	<u>(466,147)</u>	<u>(36,148)</u>	<u>0</u>	<u>(502,295)</u>
Net Capital Assets	<u>\$ 980,998</u>	<u>\$ (36,148)</u>	<u>\$ 0</u>	<u>\$ 944,850</u>

Depreciation expense is charged to programs of the Township as follows:

Governmental Activities	
General government	\$ 0
Public Safety	19,518
Public Works	<u>0</u>
Total Governmental Activities	<u>\$ 19,518</u>
Business-Type Activities	
Water System	\$ 36,148
Sewer System	<u>0</u>
Total Business-Type Activities	<u>\$ 36,148</u>

FRANKLIN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 (Continued)

NOTE D – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance covering these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E – LONG-TERM DEBT

Revenue Bonds

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, contractual agreements, loans and installment purchase agreements are direct obligations and are backed by the full faith and credit of the Township. Revenue bonds typically involve a pledge of specific income derived from the acquired or constructed assets to pay for debt service. Long-term debt activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities						
None						
Business-Type Activities						
Revenue Bonds-Water System	5.75%	6/1/2029	229,900	(5,100)	224,800	5,100
Revenue Bonds-Water System Expansion	4.25%	12/1/2047	32,000	(500)	31,500	500
Special Assessment Bonds						
Sewage system	4.50%	8/1/2042	41,000	(400)	40,600	400
Total Business-Type Activities			302,900	(6,000)	296,900	6,000

FRANKLIN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007 (Continued)

Long-term debt (continued)

Annual debt service requirements to maturity for the above obligations are as follows:

Year end March 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 0	0	\$ 6,000	\$ 15,565
2009	0	0	6,100	16,224
2010	0	0	7,100	15,849
2011	0	0	8,100	15,474
2012	0	0	9,100	15,099
Thereafter	0	0	260,500	245,960
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 296,900</u>	<u>\$ 324,171</u>

NOTE F – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Inter-fund balances

Receivable: General Fund from Tax Fund	\$4,186
Receivable: Water Fund from General Fund	\$48,045
Receivable: Sewer Fund from General Fund	\$8,643
Payable: Tax Fund to General Fund	\$4,186
Payable: General Fund to Sewer Fund	\$8,643
Payable: General Fund to Water Fund	\$48,045

Inter-fund transfers

<u>Transfers In:</u>	<u>Transfers Out:</u>	
Special Revenue Fund	General Fund	\$9,000
General Fund	Water Fund	\$3,597

NOTE G – SUBSEQUENT EVENTS

The Township is in the beginning phase of a sewer system improvement/expansion. The total project cost is estimated at \$3,000,000, with a grant application in the amount of \$330,000, for design and construction engineering costs. The grant and loan (bond) program is likely to be funded by and coordinated through the USDA's Rural Development.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Township receives Federal and State grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Township expects such amount, if any, would not be significant to the Township's financial statements.

Required Supplementary Information

FRANKLIN TOWNSHIP
Budgetary Comparison Schedule
General Fund
March 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 265,877	\$ 265,877	\$ 265,877	\$ 0
Resources (Inflows)				
Taxes	28,850	28,850	34,482	5,632
Licenses and permits				
State aid	99,676	99,676	97,113	(2,563)
Charges for services	0	0	0	0
Interest and rents	0	0	2,063	2,063
Other revenue	2,708	2,708	56,303	53,595
Loan proceeds				
Transfers from other funds			0	0
Amounts available for appropriation	397,111	397,111	455,838	58,727
Charges to appropriations (Outflows)				
Legislative	27,010	27,010	24,377	2,633
General government	85,859	85,859	82,241	3,618
Public safety	16,500	16,500	12,565	3,935
Public works	123,710	123,710	61,405	62,305
Other	10,000	10,000	9,980	20
Capital Outlay		0	0	0
Debt service	0	0	108	(108)
Transfer to other funds		0	0	0
Total charges to appropriations	263,079	263,079	190,677	72,402
Budgetary Fund Balance -March 31, 2007	\$ <u>134,032</u>	\$ <u>134,032</u>	\$ <u>265,162</u>	\$ <u>(131,130)</u>

FRANKLIN TOWNSHIP
Budgetary Comparison Schedule
Special Revenue Fund
March 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 275,578	\$ 275,578	\$ 275,578	\$ 0
Resources (Inflows)				
Taxes	101,556	101,556	102,491	935
Charges for services	<u>25,528</u>	<u>25,528</u>	<u>34,725</u>	<u>9,198</u>
Amounts available for appropriation	402,662	402,662	412,794	10,132
Charges to appropriations (Outflows)				
Public safety	29,435	29,435	22,963	6,472
Public works	45,500	45,500	37,882	7,618
Capital Outlay	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>	<u>0</u>
Total charges to appropriations	<u>129,935</u>	<u>129,935</u>	<u>115,845</u>	<u>14,090</u>
Budgetary Fund Balance -March 31, 2007	<u>\$ 272,727</u>	<u>\$ 272,727</u>	<u>\$ 296,949</u>	<u>\$ (3,958)</u>

Other Supplementary Information

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Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Board Members
Franklin Township
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Franklin Township, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin Township, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted a certain matter involving internal control over financial reporting in its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment could adversely affect Franklin Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is noted as follows:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of the transaction. Consequently, the possibility exists, that unintentional or intentional errors or irregularities could exist and not be promptly detected.

However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Franklin Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of the board members, management, others with the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

David A. Heinonen, CPA, PC

Laurium, Michigan
September 19, 2007

FRANKLIN TOWNSHIP
Schedule of Governmental Funds Assets and Fund Balances
Special Revenue Funds (Only)
March 31, 2007

	<u>Fire</u> <u>Precinct 1</u>	<u>Fire</u> <u>Precinct 2</u>	<u>Fire</u> <u>Precinct 4</u>	<u>Fire</u> <u>Equipment</u>	<u>Waste</u> <u>Disposal</u>	<u>Road</u> <u>Improvement</u>	<u>Totals</u>
ASSETS							
Cash and cash equivalents \$	9,255	\$ 11,104	\$ 12,340	\$ 78,001	\$ 19,042	\$ 159,478	\$ 289,219
Due from other funds							
Total Assets	<u>\$ 9,255</u>	<u>\$ 11,104</u>	<u>\$ 12,340</u>	<u>\$ 78,001</u>	<u>\$ 19,042</u>	<u>\$ 159,478</u>	<u>\$ 289,219</u>
FUND BALANCES							
Unrestricted	\$ 9,255	\$ 11,104	\$ 12,340	\$ 78,001	\$ 19,042	\$ 159,478	\$ 289,219
Restricted							
Total Fund Balances	<u>\$ 9,255</u>	<u>\$ 11,104</u>	<u>\$ 12,340</u>	<u>\$ 78,001</u>	<u>\$ 19,042</u>	<u>\$ 159,478</u>	<u>\$ 289,219</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP
Schedule of Governmental Funds Revenues, Expenditures, and
Changes in Fund Balance
Special Revenue Funds (Only)
For the Year ended March 31, 2007

	<u>Fire</u> <u>Precinct 1</u>	<u>Fire</u> <u>Precinct 2</u>	<u>Fire</u> <u>Precinct 4</u>	<u>Fire</u> <u>Equipment</u>	<u>Waste</u> <u>Disposal</u>	<u>Road</u> <u>Improvement</u>	<u>Totals</u>
Revenues							
Taxes	\$ 7,905	\$ 6,548	\$ 0	\$	\$	\$ 88,038	\$ 102,491
State aid							0
Charges for services	1,024				25,258		26,282
Interest							0
Other							0
Total Revenues	\$ 8,929	\$ 6,548	\$ 0	\$ 0	\$ 25,258	\$ 88,038	\$ 128,773
Expenditures							
Legislative	\$	\$	\$	\$	\$	\$	0
General Government							0
Public Safety	9,334	6,514	7,115				22,963
Public Services					27,856	376	28,232
Other							0
Capital outlay		987		0		54,013	55,000
Interest on long-term debt							0
Total Expenditures	9,334	7,502	7,115	0	27,856	54,388	106,194
Excess of revenues over(under) expenditures	(405)	(953)	(7,115)	0	(2,598)	33,650	22,578
Other financing sources (uses)							
Operating transfers in				3,000		6,000	9,000
Net Change in Fund Balance	(405)	(953)	(7,115)	3,000	(2,598)	39,650	31,578
Fund balance-beginning	9,660	12,131	11,011	84,577	21,640	119,828	258,847
Fund balance-ending	\$ 9,255	\$ 11,178	\$ 3,896	\$ 87,577	\$ 19,042	\$ 159,478	\$ 290,425

The accompanying notes are an integral part of the financial statements.

Franklin Township, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year ended March 31, 2007

This schedule responds to the audit findings from the fiscal year ended March 31, 2005, as the fiscal year ended March 31, 2006, was a non-audit year.

Findings – Internal Control Design

Condition: The procedures used to collect cash receipts from sales of fund raising events, and the lack of evidential matter with respect to those receipts, made it difficult to audit those receipts.

Recommendation: Procedures should be implemented to allow reasonable evidential matter for audit; such as pre-numbered receipts, witness cash counting, as well as the routine segregation of duties as necessary for cash collections.

Current Status: The Township has implemented procedures as recommended.

Condition: This finding was a reportable condition stating an absence of appropriate segregation of duties due to a limited number of available personnel.

Recommendation: The auditor recommended that, due to the unlikely event that the Township would hire additional personnel in order to obtain the proper segregation of duties the Township Board should remain involved in the financial affairs of the Township to provide oversight and independent review functions.

Current Status: Additional personnel have not been hired. However, the Township Board has provided oversight and independent review functions.

Findings – Compliance

Conditions: The Township has not recorded general infrastructure, as well as other assets in the governmental activities, and the associated depreciation on those assets. The Township had prepared certain financial statements on the cash basis of accounting. The Township had not adopted budgets for all its governmental fund types. The Township had not presented government-wide financial statements to display the financial position and changes in financial position of its governmental and business-type activities.

Recommendations: The auditor recommended that, the Township record its assets, prepare the financial statements on the proper basis, adopt the appropriate budgets, and present government-wide financial statements.

Current Status: The Township has now adopted budgets for all funds, and with adoption of GASB 34, the recording of assets, the financial statement basis, and the government-wide financial statements have been presented.

Franklin Township, Michigan

SCHEDULE OF FINDINGS AND RESPONSES
Year ended March 31, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT

Internal Control Design

Condition: An absence of appropriate segregation of duties due to limited number of available personnel.

Criteria: If an adequate number of personnel were available, a proper segregation of duties would provide reasonable assurance that no one employee would have access to both physical assets and the related accounting records, or to all phases of transactions.

Effect: Because of the absence of an appropriate segregation of duties, the possibility still exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Recommendation: It is not likely that the Township will hire additional personnel to obtain the proper segregation of duties, therefore the Township should remain involved in the financial affairs of the Township to provide oversight and independent review functions.

Response: We concur with the recommendation.

Internal Control Design

Condition: An absence of appropriate funding in the Water Fund Reserve Account, and the creation of an account in the Sewer Account.

Recommendation: The Township should establish a reserve account with proper funding, and to establish a bank account for the Sewer Fund.

Response: We concur with the recommendation. The Water Fund situation has been rectified, and the Sewer Fund will have a bank account established when necessary.